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SENSITIVE
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SUBJECT: BELARUS: WORLD BANK, IMF SEE NEED FOR EXCHANGE RATE
ADJUSTMENTS, PRIVATIZATION

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Summary

¶1. (SBU) Post has met recently with a visiting World Bank team and the new IMF resrep. Their consensus view, shared by post, is that that resolution of the economic crisis in Belarus will require fundamental steps by the GOB beyond simply obtaining further loans and credits. Recognition of this at the political level remains an open question. End summary.

World Bank

¶2. (SBU) World Bank Director for Ukraine, Belarus, and Moldova Martin Raiser briefed Charge and other diplomats April 20. Raiser explained that discussions with the GOB were going fairly well, but was careful to point out several key factors affecting any potential assistance to Belarus. He confirmed that, following World Bank practice, structural steps -- particularly macroeconomic reforms -- would need to be in place prior to the granting of any assistance, and added that although the GOB has requested US$1 billion the amount which would be considered would be markedly less given the World Bank's $35 billion annual worldwide lending level. (The GOB currently gets $100 million a year from the World Bank.)

¶3. (SBU) Raiser added that the issue of assistance to Belarus would not likely be brought to the bank's board until September ¶2009. He agreed with others present, including the IMF resrep, that Belarus' problems are comprehensive and greater than previously anticipated. While he had a series of discussions with GOB officials, including Deputy Prime Minister Kobyakov, Raiser could not speak with confidence on the extent to which the highest levels of GOB leadership understand the depth of the economic crisis here.

IMF

¶4. (SBU) Newly-arrived International Monetary Fund (IMF) Resident Representative Nataliya Kolyadina, a Russian citizen, met with Charge April 22. She confirmed that the IMF team, led by Chris Jarvis, would return to Minsk in late April 2009 to review the existing $2.46 billion credit. Kolyadina highlighted the fact that the GOB had made deep cuts in public expenditure and would probably succeed in cutting the budget deficit to zero, but was not meeting the necessary criteria for receiving the next tranche of that credit, as foreign reserves were lower than required. At the same time, Kolyadina acknowledged that the depth of this crisis -- and, in particular, the greater economic declines in Russia and Ukraine -- meant that previous calculations were incorrect and the GOB's needs were greater. The IMF was still in favor of letting the Belarusian ruble slide

farther, at least another five percent; Kolyadina expressed surprise at recent public statements by National Bank Governor Pyotr Prokopovich that the ruble would not be allowed to decrease more than one percent in value.

¶5. (SBU) Kolyadina confirmed that the GOB was making some progress in de-dollarization by raising interest rates for ruble savings and reducing them for hard currency accounts. She agreed with Charge that currency swap arrangements (in place with China, and allegedly being considered by other countries including Russia) would not help the financial bottom line. When pressed, she said that the GOB had not officially asked for further funds from the IMF, speculating that structural progress such as sought by the World Bank might strengthen the case for additional IMF help. From her perspective on the crisis here, Kolyadina feels it is inevitable that the authorities must place national assets on the block for privatization, sooner rather than later; she concurred that senior political leadership may not fully understand that. (Comment: EBRD has already expressed willingness to help with the pre-privatization process. End comment.) She confirmed that Jarvis as team leader would be available to provide a briefing on the IMF mission's conclusions around May 11.

Comment

¶6. (SBU) As we saw in the fall of 2008, there is a disconnect between the economic and financial experts and Belarus' most senior political leadership. GOB concern for the views of the populace, not usually of much importance here to regime officials, grew prior to the IMF-mandated 20% devaluation of the Belarusian ruble in January 2009 and has increased since. Politically, the authorities are not prepared to force another precipitous devaluation, and are wary that too much of a downward shift over time in the ruble rate will spark broader complaints. Separately, the privatization of key cash cows --

those few state-owned institutions, particularly in the energy sector, that generate much of the nation's income -- is a step which the Presidential Administration and even some of the nationalists in the democratic opposition are hoping can be avoided. Currency swaps and grand statements by the regime's allies will be hailed from time to time but will not add to dwindling reserves. As recognition sets in that there are no other options for sustaining the economy -- a message that will be underlined by the IMF team later this month, and will be further confirmed by the fact that any World Bank assistance will be neither extensive nor imminent -- the GOB will have to choose between economic realities and political fantasies.
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